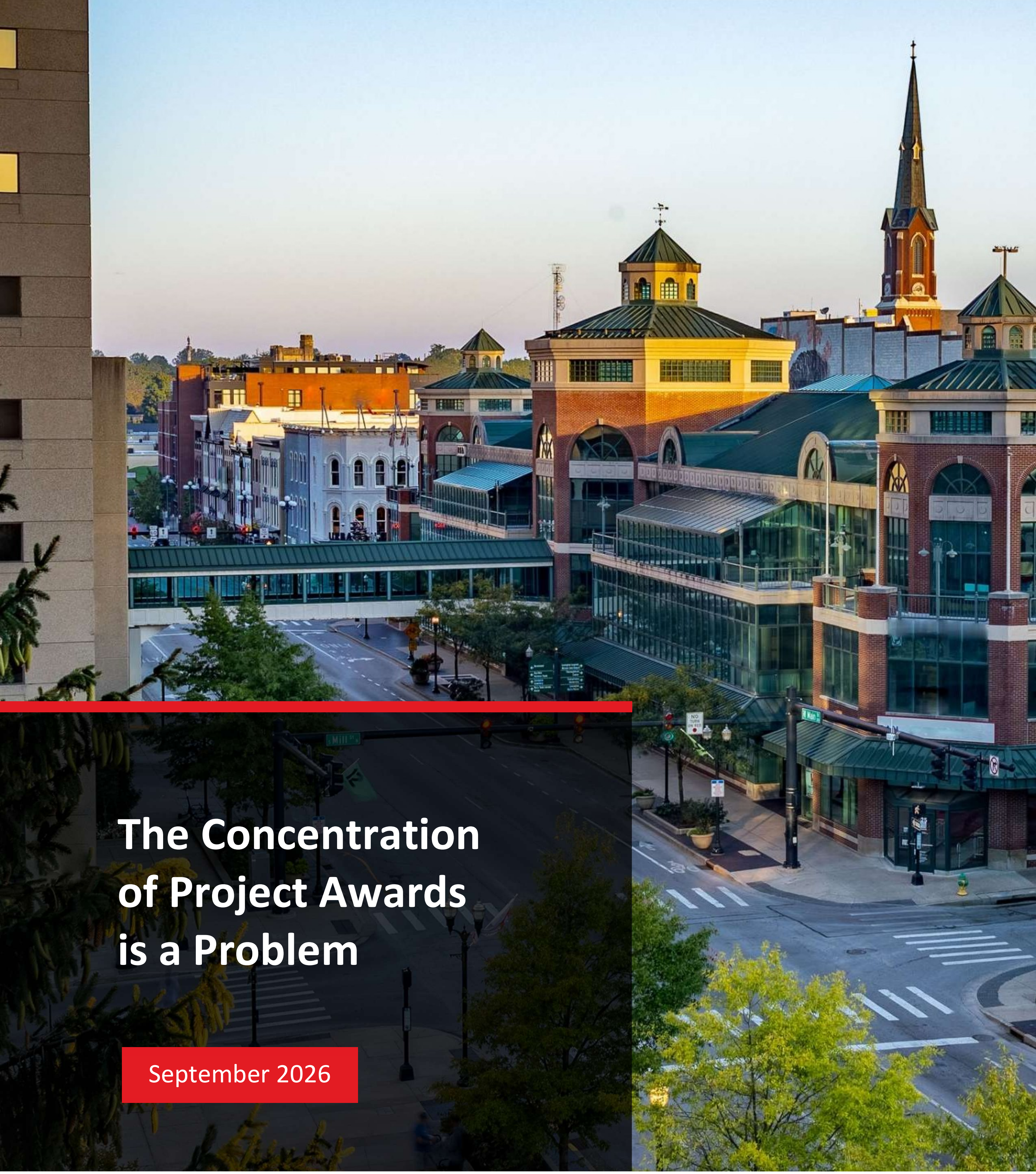

The Concentration of Project Awards is a Problem

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Many government organizations operate contracting inclusion programs to encourage the participation of particular types of businesses—for example, small businesses, businesses owned by people of color (POCs), women, veterans, or people with disabilities—in the projects that they award, because historically, these businesses have been disproportionately excluded from participating in organizations' contracting processes. Regardless of the groups that are the focus of such programs, the fundamental objective is the same: award more project dollars to a larger number of businesses, and by doing so, diversify the organization's vendor pool.

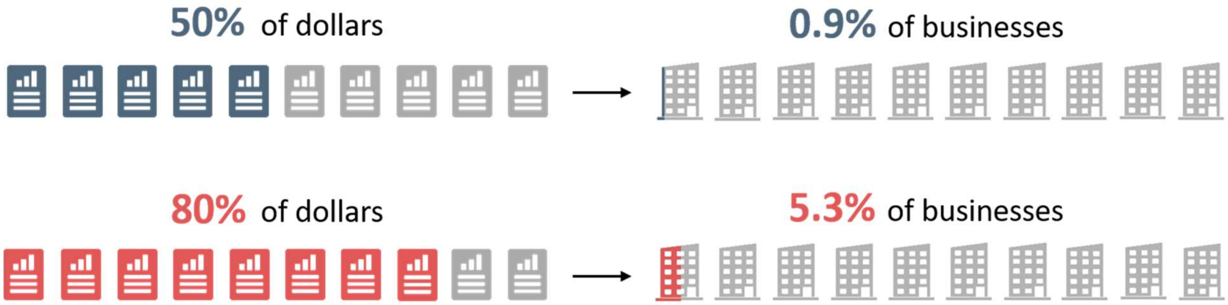
Contrary to this objective, BBC Research & Consulting (BBC) has observed a notable pattern across the decades of contracting inclusion research we've conducted: the vast majority of projects government organizations award go to an extraordinarily small number of businesses. We've observed this phenomenon for all government projects considered together and separately for prime contracts, subcontracts, small businesses, businesses owned by POCs or women, and for various other project sets and business groups. No matter how we cut the data, the results show that organizations award remarkably large percentages of their project dollars to remarkably small percentages of businesses.

A. Concentration of Project Awards

BBC recently compiled raw data from 49 contracting disparity studies we conducted between 2014 and 2023 that were focused on projects that government organizations—including states, cities, counties, universities, transportation agencies, and other types of organizations—awarded between 2007 and 2021. The data from those studies allowed us to examine the percentage of businesses that accounted for different percentages of the project dollars that the organizations awarded over that time period. Specifically, we analyzed whether they awarded their dollars to relatively few businesses or whether those dollars were spread across a large number of businesses (i.e., *concentration of awards*).

We assessed the concentration of awards by taking all 38,483 businesses—that is, *participating businesses*—to which government organizations awarded at least $1,000 in project dollars and ordering them from the business that was awarded the largest amount of dollars ($2.0 billion) to the business that was awarded the smallest amount of dollars ($1,001). Then, starting at the top of the list, we assessed how many participating businesses it took to account for at least 50 percent and 80 percent of the total project dollars the organizations awarded. We present the results of that analysis in Figure 1. As shown in the top panel of the figure, slightly less than 1 percent of all participating businesses accounted for 50 percent of the project dollars that government organizations awarded, indicating that very few businesses receive meaningful amounts of work on the projects that government organizations award. The concentration of awards improved only modestly when we considered a greater percentage of project dollars: a little more than 5 percent of all participating businesses accounted for 80 percent of the project dollars that organizations awarded. (We observed very similar results when we based the analysis on numbers of projects rather than on amounts of project dollars.)

Figure 1.
Percentage of businesses that account for 50 percent and 80 percent of government project dollars



Note: Analysis based on 656,467 projects totaling $148.7 billion from disparity studies BBC conducted between 2014 and 2023.

Certain government projects may be so large that only a small number of businesses could reasonably compete for or perform them, and including those projects in our analyses might skew results in favor of finding substantial concentration of awards when it may not exist in the rest of the dataset. To account for that possibility, we ran a second analysis in which we removed all projects from our dataset worth $1 million or more to assess the degree of concentration for government projects that might be more typical of the sizes of projects for which most businesses can compete or perform. As shown in Figure 2, the results of that second analysis are not meaningfully different from the results of the first one. Although the concentration of awards appears to be less of an issue when limiting the analysis to projects worth less than $1 million, it still appears to be an issue. As shown in the top panel of Figure 2, a little more than 3 percent of all participating businesses accounted for 50 percent of the dollars associated with government projects worth more than $1,000 but less than $1 million, and only 15 percent of all participating businesses accounted for 80 percent of those dollars.

Figure 2.
Percentage of businesses that account for 50 percent and 80 percent of government project dollars on projects worth less than $1 million

Note: Analysis based on 634,464 projects totaling $33.9 billion from disparity studies BBC conducted between 2014 and 2023.

B. Deconcentrating Project Awards

Organizations are increasingly becoming aware of the issue of concentration in their project awards, and several of them are taking steps to encourage the participation of a larger number of businesses in their work. Some efforts that those organizations are making to deconcentrate project awards include de-emphasizing bidders' and proposers' previous experience with their organizations when evaluating bids and proposals, facilitating "how to do business with the organization" workshops for businesses that haven't participated in their projects in the past, and facilitating matchmaking and other networking events so that agency representatives and potential prime contractors can develop relationships with emerging businesses and businesses that might not have worked on their projects in the past.

In addition to the measures that some organizations are already using, we suggest several additional efforts that might be effective in attracting new businesses to organizations' contracting processes and in growing and diversifying their vendor pools:

- **Monitor concentration:** The first step in addressing a problem is to assess the degree to which the problem exists. Organizations should collect and analyze data on the businesses to which they award work, the percentages of their project dollars for which those businesses account, and characteristics of the businesses to which they're awarding the most dollars (e.g., business size, types of work, races of business owners, and genders of business owners). That information should be included as part of the key performance indicators that organizations track and report to their internal and external stakeholders.
- **Task-order projects:** Many organizations award *task-order projects* to multiple businesses, so theoretically, several businesses can be awarded individual task orders issued from those projects. However, the benefits of task order projects often remain theoretical. In practice, organizations tend to award task orders to the same one or two businesses while the other businesses don't receive much, if any, of the work. If they aren't already doing so, organizations should consider awarding task-order projects, or if they're already doing so, they should consider increasing the number of task-order projects they award. But to ensure that all the businesses to which they award those projects can realize their benefits, organizations should establish structured rotation schedules to ensure that the businesses on a task order project are all awarded comparable amounts of work over the life of the project.

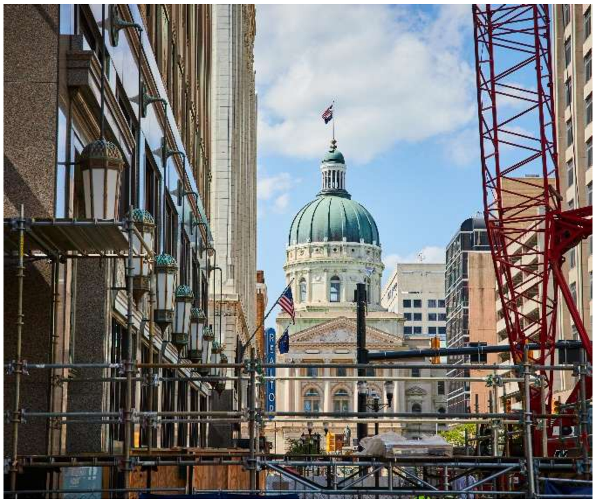
- **Project award caps:** Our analyses indicated that organizations award large amounts of their project dollars to remarkably small percentages of businesses, and they tend to do so by repeatedly awarding projects to the same businesses. To help address that issue, organizations could consider setting caps on how many projects or project dollars a single business or its affiliates can be awarded in a single year or some longer time period. The caps could vary based on work types, project roles (i.e., prime contracts or subcontracts), the availability of businesses for the work involved, and other project or business characteristics. Organizations could update businesses' progress toward those caps in a rolling fashion as the projects they perform are completed.

- **Untried business set-asides:** To attract new businesses to their contracting and procurement processes, organizations should consider setting aside certain projects for exclusive competition among businesses that have never worked with them in the past or at least not in the recent past (i.e., *untried businesses*). Organizations would identify projects of certain types and sizes that align with their contracting inclusion objectives and collect bids or proposals only from bidders or proposers that submit affidavits affirming that they have never worked with the organization before or at least not for some pre-specified amount of time (e.g., within the past five years).

- **Bid discounts and bonus points:** To complement their use of set-asides, organizations could attract untried businesses to their contracting and procurement processes by offering *bid discounts* or by awarding additional *bonus points* to bids and proposals that those businesses submit. Bid discounts would involve discounting bid amounts from untried businesses by some pre-determined percentage but only for the purposes of identifying the lowest bidders. Awarding bonus points would involve adding a pre-determined number of preference points to the evaluation scores of proposals that untried businesses submit. Organizations could use bid discounts and bonus points for untried businesses competing for work as prime contractors or prime consultants or to project teams that include untried businesses as subcontractors or subconsultants.

- **Marketing campaign:** Our analyses show that organizations award the vast majority of their project dollars (and projects) to select few businesses relative to all businesses to which they award project work. They award work to even fewer businesses relative to all the businesses in their marketplaces that are interested in and available for their work. To take fuller advantage of their local business communities and attract untried businesses to their contracting and procurement processes, organizations should consider developing compelling marketing and public relations campaigns to communicate how desirable and profitable their project opportunities could be to businesses working in their marketplaces. Such campaigns should not only raise awareness about organizations' project opportunities but should also persuade untried businesses to pursue that work.

C. Next Steps



As government organizations consider enhancing their contracting inclusion efforts, a critical part of that process should be to assess whether their project awards are spread across substantial portions of the relevant businesses in their marketplaces or are instead being awarded to small numbers of select businesses. Situations where disproportionately large percentages of projects or project dollars are being awarded to disproportionately small percentages of businesses may undermine organizations' efforts to create fair and equitable contracting and procurement processes. One of the most effective ways for organizations to start addressing such issues is to conduct good research to understand the extent to which the concentration of awards exists in their contracting and procurement processes and then develop measures as part of their contracting inclusion programs that help address those issues.

BBC is continuously exploring ideas for how organizations can address the concentration of awards and other issues that potentially lead to inequitable or exclusionary contracting outcomes. If you want to be proactive in examining whether such issues impact your organization's contracting and start working on effective solutions, we welcome the opportunity to engage with you to help ensure that businesses throughout your community can participate more equitably in the projects your organization awards.

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